

**CITY OF EAST HELENA (PG0325)**  
**MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM**  
**GASB 68 NOTES TO THE FINANCIAL STATEMENTS**  
**FOR FISCAL YEAR ENDED**

**JUNE 30, 2015 (measurement date)**

**JUNE 30, 2016 (reporting date)**

**Pension Amount Totals - 74**

GASB Statement 68, paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

**Net Pension Liability - 80a, 80b, 80c, 80d, 80e, 80f**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Municipal Police Officers' Retirement System (MPORS). GASB Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

MPORS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to MPORS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government's collective NPL that is associated with the non-State employer.

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

<b>As of reporting date</b>	<b><u>Net Pension Liability as of 6/30/2016</u></b>	<b><u>Net Pension Liability as of 6/30/2015</u></b>	<b><u>Percent of Collective NPL as of 6/30/2016</u></b>	<b><u>Percent of Collective NPL as of 6/30/2015</u></b>	<b><u>Change in Percent of Collective NPL</u></b>
Employer Proportionate Share	\$ 257,602.07	\$ 245,305.79	0.155725%	0.156111%	-0.000386%
State of Montana Proportionate Share associated with Employer	\$ 521,926.25	\$ 495,547.07	0.315515%	0.315362%	0.000153%
<b>Total</b>	<b>\$ 779,528.32</b>	<b>\$ 740,852.86</b>	<b>0.471240%</b>	<b>0.471473%</b>	<b>-0.000233%</b>

The Table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the MPORS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of MPORS' participating employers. As of the employer's reporting date the employer recorded a liability of \$xxx,xxx and the employer's proportionate share was x.xxxxxx percent.

**Changes in actuarial assumptions and methods:** There were no changes in assumptions or other inputs that affected the measurement of the TPL.

**Changes in benefit terms:** There have been no changes in benefit terms since the previous measurement date.

**Changes in proportionate share:** Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL. *(Employers must disclose the details of significant changes or state no changes.)*

**Pension Expense – 80g, 80j**

As of reporting date	<u>Pension Expense</u> <u>as of 6/30/2016</u>	<u>Pension Expense</u> <u>as of 6/30/2015</u>
Employer's Proportionate Share for MPORS	\$ 25,961.89	\$ 26,386.33
State of Montana Proportionate Share associated with the Employer	\$ 53,081.41	\$ 53,303.56
<b>Total</b>	\$ 79,043.30	\$ 79,689.89

At June 30, 2016, the employer recognized its proportionate share of the MPORS' Pension Expense of \$79,043.30. The employer also recognized grant revenue of \$53,081.41 for the support provided by the State of Montana for the proportionate share of the Pension Expense that is associated with the employer. *(Two years of pension expense are documented in the above table but are not necessary for the employer's disclosures.)*

**Recognition of Deferred Inflows and Outflows – 57, 80h, 80i**

At June 30, 2016, the employer reported its proportionate share of MPORS' deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 0.00	\$ 2,352.59
Changes in Assumptions	\$ 0.00	\$ 0.00
Actual vs. Expected Investment Earnings	\$ 0.00	\$ 9,677.58
Changes in Proportion Share	\$ 0.00	\$ 509.71
Employer contributions subsequent to the measurement date - # FY 2016 Contributions	\$ 33,887.03	
Total	\$ 33,887.03	\$ 12,539.88

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

For the Reporting Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2017	\$ (5,251.17)
2018	\$ (5,251.17)
2019	\$ (5,251.16)
2020	\$ 3,213.62
2021	\$ 0.00
Thereafter	\$ 0.00

**Plan Description – 76a**

The Municipal Police Officers' Retirement System (MPORS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established in 1974 and governed by Title 19, chapters 2 & 9, MCA. This plan provides retirement benefits to all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries.

*Deferred Retirement Option Plan (DROP):* Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. The balance held by MPORA for MPORS DROP participants as of June 30, 2016, was approximately \$7 million.

### **Summary of Benefits – 76b**

#### **Eligibility for benefit**

20 years of membership service, regardless of age.  
Age 50, 5 years of membership service.

#### **Vesting**

Death and disability rights are vested immediately  
5 years of membership service for all other rights

### **Member's final average compensation (FAC)**

- Hired prior to July 1, 1977 - average monthly compensation of final year of service;
- Hired on or after July 1, 1977 - final average compensation (FAC) for last consecutive 36 months.

### **Compensation Cap**

- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's final average compensation.

### **Monthly benefit formula**

2.5% of FAC per year of service credit.

### **Guaranteed Annual Benefit Adjustment (GABA)**

Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, **inclusive** of all other adjustments to the member's benefit.

### **Minimum Benefit Adjustment (non-GABA)**

If hired before July 1, 1997 and member did not elect GABA - the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city that the member was last employed.

**Overview of Contributions – 76c**

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown in the table below.

Fiscal Year	Member				Employer	State
	Hired <7/1/75	Hired >6/30/75	Hired >6/30/79	Hired>6/30/97 GABA		
2000-2016	5.800%	7.000%	8.500%	9.000%	14.410%	29.370%
1998-1999	7.800%	9.000%	10.500%	11.000%	14.410%	29.370%
1997	7.800%	9.000%	10.500%		14.360%	29.370%

**Stand-Alone Statements – 76d**

The MPORS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154.

CAFR information including our stand alone financial statements can be found on our web site at <http://mpera.mt.gov/annualReports.shtml>

The latest actuarial valuation and experience study can be found at our website at <http://mpera.mt.gov/actuarialvaluations.shtml>

**Actuarial Assumptions – 77**

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. There were several significant assumptions and other inputs used to measure the TPL. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.75%
- Admin Expense as % of Payroll 0.20%
- General Wage Growth\* 4.00%
- \*includes Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases

i. **Guaranteed Annual Benefit Adjustment (GABA)**

Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, **inclusive** of all other adjustments to the member's benefit.

ii. **Minimum Benefit Adjustment (non-GABA)**

If hired before July 1, 1997 and member did not elect GABA - the monthly retirement, disability or survivor's benefit may not be less than  $\frac{1}{2}$  the compensation of a newly confirmed officer in the city that the member was last employed.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

**Discount Rate - 78a, 78b, 78d, 78e**

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

**Target Allocations - 78c, 78f**

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Cash Equivalents</b>	2.00%	-0.25%
<b>Domestic Equity</b>	36.00%	4.55%
<b>Foreign Equity</b>	18.00%	6.10%
<b>Fixed Income</b>	24.00%	1.25%
<b>Private Equity</b>	12.00%	8.00%
<b>Real Estate</b>	8.00%	4.25%

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Summarized in the table above are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

**Sensitivity Analysis – 78g**

<b>As of reporting date</b>	<b>1.0% Decrease (6.75%)</b>	<b>Current Discount Rate</b>	<b>1.0% Increase (8.75%)</b>
Employer's Net Pension Liability	\$ 363,694.86	\$ 257,602.07	\$ 163,418.15

The above table presents the NPL calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

**Summary of Significant Accounting Policies – 79**

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the NPL; deferred inflows of resources and deferred outflows of resources related to pensions; Pension Expense; information about the fiduciary net position; and, additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

**CITY OF EAST HELENA (PG0325)**  
**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**For the Last Ten Fiscal Years\***  
**81a1**

	<b>2016</b>	<b>2015</b>
Employer's proportion of the Net Pension Liability as a percentage	0.155725%	0.156111%
Employer's proportionate share of the Net Pension Liability as an amount	\$ 257,602.07	\$ 245,305.79
State of Montana's proportionate share of the Net Pension Liability associated with the Employer	\$ 521,926.25	\$ 495,547.07
Total	\$ 779,528.32	\$ 740,852.86
Employer's Pensionable Payroll	\$ 215,526.83	\$ 209,459.36
Employer's proportionate share of the Net Pension Liability as a percentage of its Pensionable Payroll	119.522%	117.114%
Plan fiduciary net position as a percentage of the Total Pension Liability	66.9%	67.0%

*\*The amounts presented above for each fiscal year were determined as of June 30th, the measurement date.*

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*



**CITY OF EAST HELENA (PG0325)**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**For the Last Ten Fiscal Years\***  
**81b**

	<b>2016</b>	<b>2015</b>
Contractually Required Contributions	\$ 33,887.03	\$ 31,242.80
Contributions in Relation to the Contractually Required Contributions	\$ 33,887.03	\$ 31,242.80
Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00
Employer's Pensionable Payroll	\$ 231,049.18	\$ 215,526.83
Contributions as a percentage of Pensionable Payroll	14.667%	14.496%

*\*The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**CITY OF EAST HELENA (PG0325)**  
**Notes to Required Supplementary Information**  
**for the Year ended June 30, 2016**  
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**Changes of Benefit Terms**

The following changes to the plan provision were made as identified:

**2013 Legislative Changes:**

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

All MPORS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to MPORS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

**2015 Legislative Changes:**

General Revisions - House Bill 101, effective January 1, 2016

**MPORS DROP Survivor Benefits** - for MPORS

Allow statutory beneficiary (spouse or dependent child) of a deceased DROP participant to receive a DROP benefit and a survivorship benefit rather than accumulated contributions or a lump sum payment. 19-9-1206(1), MCA.

**Changes in Actuarial Assumptions and Methods****Method and assumptions used in calculations of actuarially determined contributions**

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.20%
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The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open